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SPECIAL REPORT

CREWS CONTROL

**How airlines
can tackle costs**



CREWS CONTROL

With the potential to slice a fifth out of their crewing costs structure, airline leaders should not ignore their operational manpower supply chain, write Blair Pomeroy, Vikram Krishnan and Scott Krouse, of consultancy Oliver Wyman, and Peter Hume of IQ Squared

Most chief executives, chief financial officers and chief operating officers would love to ignore not only their crew supply chain but the entire crew management function. For the C-suite, crew management usually means having to deal with endless complaints or, worse, the time-sink of industrial relations. The less time spent there, the better.

Crew-related costs typically represent 10-20% of an airline's cost structure – as much, if not more, than any other cost bucket except fuel. But carriers that aggressively focus on all facets of their crew management

function can reduce crew costs more than a fifth. There are not many cost buckets that can deliver a 2-4 point margin improvement.

Four factors determine the crew unit cost of an airline – pay and benefits, work and regulatory rules, network structure, and crew supply chain performance (see figure 1 opposite).

When airline executives are forced into attacking uncompetitive crew unit cost, they almost always start with pay and benefits. If necessary, they then move to work rules. Touching either area usually leads to immediate trench warfare with crew.

Pay and benefits and work-rule negotiations are unavoidable when driven by contract

cycles or labour agitation. At other times, negotiations are driven by management foraging for unit cost savings. Competitive realities may require tackling these areas, but there is usually a better starting point.

In our work with airlines across the globe, we typically find more than half of the potential crew-related savings in the crew supply chain (see figure 2 P47). In fact, we have yet to see a crew supply chain that did not spew out economic waste like a coal-fired furnace. Many also lead to operational hiccups that result in additional hidden costs and even revenue leakage. That is why we nearly always tell clients in search of cost reduction

to start with the crew supply chain rather than pay and benefits and work rules – they will gain more savings with less pain. Getting this right could actually pre-empt some crew pressure for higher wages and tighter work rules.

Five steps will help airline executives reduce this economic waste. Up to four margin points hang in the balance – quite an incentive for an industry with a one percentage point average margin.

1. Manage the supply chain as an integrated supply chain

Generically, a supply chain is the movement of production materials (ie crew) from their source to the end product. Crew supply chains have numerous inputs, many “links” (processes), and several organisational owners. Its “throughput” (time from materials-in to end-product) can be a year or longer. Crew supply chains are notoriously complex.

Most airlines do not view crew resourcing, the core of crew management, as running an integrated supply chain. Rather, each “link” is optimised (or not) as an isolated and independent process. This misses critical interdependencies across the crew supply chain. We could consume pages with real-life examples of misco-ordination, instead we offer two:

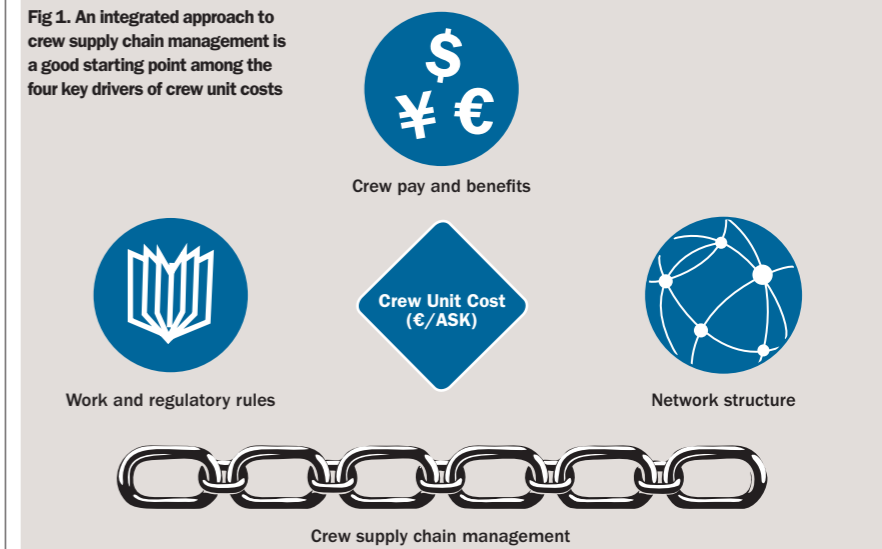
- An airline invested millions of euros acquiring and integrating new technology for its crew scheduling (rostering) process. Unfortunately, the upstream manpower planning process was consistently providing too many crew. The “high math” in the pairing optimiser and rostering modules was superfluous. Not surprisingly, that IT investment produced a negative return on investment.

- Despite the crew resourcing department having a good handle on their “links”, the entire crew supply chain suddenly moved out of equilibrium. Two months out from operation, network planning added flying to the schedule. At about the same time, flight operations made close-in changes to crew work rules. Because of these sudden and uncoordinated actions, a crew shortage materialised overnight. With a lead time of seven to eight months to recruit, train, and on-board new pilots, the airline was stuck.

If there are similar co-ordination problems at your airline, then you may swing from too many crew to too few – an oddly common situation. As these examples demonstrate, not approaching crew resourcing as the management of a crew supply chain can destroy

CREW COSTS

Fig 1. An integrated approach to crew supply chain management is a good starting point among the four key drivers of crew unit costs



enormous value. Acknowledging that crew resourcing is really about management and optimisation of a supply chain is only the start. As with all performance improvement efforts, process, people and tools must also be scrutinised.

We would like to say some new “disruptive technology” replaces the need for these ho-hum “change” levers – but that is just not the reality of the situation. The remaining four suggestions leverage these conventional levers and offer some practical insights drawn from our many crew assignments.

2. Measure, measure, measure

We all know the old but true adage “you can’t manage what you don’t measure”, but most airlines rely on only basic metrics. How can they operate a world-class supply chain with such rudimentary gauges?

We recommend our clients introduce a dashboard of metrics. It should track the final output of the crew supply chain and the individual “links”. It should also track the timeliness and quality of each input into and hand-off within the supply chain. We also recommend including leading indicators of changing supply-chain behaviour. For example, a sustained increase in crew attrition and sickness will ultimately lead to tighter supply. Monitoring these metrics and adjusting to new realities will help avoid nasty surprises.

3. Ensure you have robust end-to-end processes... and follow them

Crew supply chains have notoriously weak processes. Many appear to have been established in prehistoric times and never revisited. It is hard to overstate the process deficiencies we see in our work. The most egregious are:

- Poor adherence to timelines for inputs and hand-offs
- Incomplete or poor quality inputs
- Incomplete or unclear objectives for a process step

With such little process discipline, it is not surprising many crew supply chains feel like the wild west. Poor process integrity means inefficient and frequently changing rosters. That creates economic waste and collateral damage. Disrupting crew members’ lives often leads to punitive actions – for example, compensatory pay claims and tighter work rules – further deteriorating crew economics.

The remedy is conventional process redesign. While straightforward in principle, the complexity and cross-organisational dimensions of the crew supply chain can make process redesign a devil of a challenge.

Invest the necessary time and quality resources to the mission. The outputs should be more than just shiny process maps. They should include clear service level agreements for all process inputs and hand-offs, especially those that are interdepartmental.

CREW SUPPLY CHAIN

Fig 2. The cross-organisational composition of the crew supply chain



4. Pay attention to the crew supply chain organisation

Our most important, if predictable, recommendation. There are two key elements here:

- An organisational structure that supports management of the entire cross-departmental entity
- Rigorous planning, analysis and continuous improvement capabilities

Virtually all crew supply chains are made up of many organisational players, including crew resourcing, network planning and scheduling, human resources, flight operations, cabin services, operations control and sometimes several others (*Figure 2 above*).

Keeping these disparate pieces organised is a huge challenge. We strongly recommend a single person has end-to-end oversight of the crew supply chain. It is essential that this person has the authority and gravitas to direct and influence the many organisations that

comprise the crew supply chain. No end-to-end leader, or a weak one, will result in a lack of coordination between “link” owners.

A mismatch exists at most airlines between the complexity of the crew supply chain and the capabilities of the people meant to manage it. Crew resourcing is often seen as an administrative function and is often starved of analytical resources. The brightest stars within an airline are often shepherded to the network, revenue management or finance areas. If the crew supply chain were to get some of these stars, where would they go? Many airlines have small, or non-existent, crew planning, analysis, and continuous improvement groups, the logical home for such staff. Such groups bring greater focus and analytical rigour to:

- Manpower planning, levels, basing, standby/leave, the primary productivity levers
- Crew supply chain performance management, including production and analysis of

comprehensive metrics

- Analysis of proposed or potential regulatory and work rule changes and other scenarios.
- Analysis of proposed schedule or network structure changes
- Oversight of existing optimisation tools and introduction of new ones
- All performance improvement programmes

5. Invest (cautiously) in technology

Historically, crew optimisation technology was expensive, notoriously difficult to integrate, and not very “optimising”. The past decade has seen considerable improvements. We recently did a “bake-off” between a leading older and a current-generation rostering system. The results were impressive – the new system used 10% fewer crew.

If your crew supply chain has robust processes and sound organisation capabilities, it may be time to consider some of these new tools. However, we counsel moving slowly through the system selection and integration process. The adage “we don’t have much time so we better move slowly” fits the bill.

Chief executives, chief financial officers and chief operating officers need to give the crew supply chain the attention it merits, based on its size and importance in any carrier’s cost structure.

The five recommendations illustrated here are within reach for every airline regardless of size. The result may be tens of millions of euros (or dollars) in annual savings for mid-size airlines, and more for the largest carriers – regardless of geography or business model – all without trench warfare. ■

CASE STUDY: CREW SUPPLY CHAIN BUST-UP

We were called into one European carrier after its pilot supply chain unexpectedly collapsed. The airline required hundreds of additional pilots for its summer programme, but secured only half that. This crew supply chain fiasco led to a host of cancelled flights. Passenger revenue deflection and extra wet-lease costs forced the airline to report an extraordinary loss that ran into tens of millions of euros. A senior executive was sacked. Meanwhile, new hires were being paid but sitting at home untrained and unusable.

How could this happen? While there were a number of contributing factors, the key problems were a lack of supply chain oversight and co-ordination, and scant performance measurement data. In short, the crew supply chain was not being managed as one.

Disconnects among the manpower planning, recruiting, training, and crew scheduling groups caused hidden bottlenecks to form throughout the crew supply chain. The most serious was in new recruit training. Beyond insufficient class and simulator capacity, the airline was virtually out of pilot trainers. The chief executive had wanted better pilot productivity so the trainers were out flying. When they were needed for training, they were out of hours.

This lack of co-ordination and the impending trouble would have been spotted earlier had there been better metrics and someone with overall crew supply chain responsibility. Nobody in the C-suite was watching the crew supply chain, although they were all clamouring for greater crew productivity.

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